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ABSTRACT

A brief summary is presented of the 1988 surveys of states regarding the legislative implementation of savings plans (mostly state and local tax-free bonds) and guaranteed tuition plans as methods of advance payment for college. The 10 states that have passed savings bills are listed, three of which (Illinois, North Carolina and North Dakota) have implemented their plans, and the 8 states that have passed guaranteed tuition bills are listed. A brief summary of the Internal Revenue Service (IRS) ruling on the Michigan Education Trust is given. The status of the other states is also briefly summarized. The bulk of the report is a table giving the following summary information, where available, for each state: interest level (high, medium-high, medium, low-medium, and low); status; implementation; type of plan (savings, guaranteed tuition, and other); IRS status; and description or comments. (KM)

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1988 SURVEY
of
COLLEGE SAVINGS and TUITION FUTURES PLANS

ECS
JULY 1988

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SUMMARY OF THE 1988 SURVEY

Advance payment for college strategies tend to fall into one of two broad categories: savings plans (most of which involve the sale of state and local tax free bonds); and guaranteed tuition plans. States that have passed savings bills (date of signing in parentheses) include:

Colorado (4/88), zero-coupon bonds
Connecticut (7/88), general obligation bonds
Illinois (9/87), general obligation bonds
Iowa (5/88), capital appreciation bonds
Kentucky (4/88), state savings fund plus an endowment fund
North Carolina (7/87), revenue bonds
[1]North Dakota (4/88), zero coupon bonds
Rhode Island (6/88), combination bonds and state tax-free educational savings accounts
Virginia (4/88), unit investment trust
Washington (2/88), general obligation bonds

Three of these ten states have implemented their plans: Illinois (January 1988); North Carolina (fall of 1987); and North Dakota (June 1988). Washington plans to implement before the end of 1988.

Eight states have passed guaranteed tuition bills:

Florida (7/87)
Indiana (7/87)
Maine (6/87)
Michigan (12/86)
Missouri (6/88)
Oklahoma (7/88)
Tennessee (5/87)
Wyoming (2/87)

Michigan is considered the forerunner in this category, and most of the states have used the Michigan bill as a model for their own. These states have delayed implementation of their plans because of the uncertainty of the tax status of tuition futures accounts. Wyoming is the exception; by not exempting their program from federal taxes, they were able to begin selling futures contracts in August of 1987.

In the meantime, the IRS did send Michigan a ruling (dated March 29, 1988) which states that purchasers of contracts would not be taxed. Instead, the Michigan Education Trust (MET) would be taxed at the higher corporate rate, which MET hopes to offset with corporate deductions. (The qualified beneficiary may also have a tax liability when the contract is redeemed). Since the MET considers itself a not-for-profit corporation, it has applied for tax-exempt status.

Unfortunately, the IRS ruling was state-specific rather than blanket in nature as the tuition-guarantee

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[1]North Dakota actually did not need legislation; instead it passed a resolution authorizing the ND Industrial Commission to market some of its bonds for educational purposes.

states had hoped. This delayed implementation even further.

Both Michigan and Florida intend to go on-line with their programs this August and September respectively. (Florida will request an IRS ruling; however, its legislation allows it to sell contracts before the ruling is received).

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Of the states not mentioned above, some have legislation pending, some are studying the issue, and some have no current interest.

Pending:

-Georgia, Minnesota and Ohio have savings bills that are before their legislatures.

-Massachusetts has a combination savings bond and tuition certificate[2] bill pending.

-California has a combination bill pending that would both establish a college savings bond program with interest indexed to college costs and mandate a study of tuition guarantee plans.

-New Jersey and Pennsylvania each have tuition certificate bills before their legislatures.

Being Studied:

-The following states are studying the issue: Arkansas, Kansas, Louisiana, Nebraska, New Hampshire, New Mexico, New York, Texas and Wisconsin.

No Current Interest:

-Actually, all states are concerned about how their citizens will pay for their children's college educations. Several, however, do not wish to develop plans, programs or legislation at this time. They include: Alabama, Arizona, Delaware, Georgia, Hawaii, Idaho, Maryland, Mississippi, Montana, Oregon, Puerto Rico, South Dakota, Utah and West Virginia.

Other:

-Nevada officially supports passage of a federal program, but may consider developing its own program if the former is not forthcoming.

-South Carolina may re-introduce an IRA-type proposal.

-Vermont is awaiting the outcome of federal proposals.

-Wisconsin, in addition to a study by the University of Wisconsin, may introduce a savings bond bill next session.

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July 1988

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[2] Tuition certificates represent one method of guaranteeing tuition in the future. A certificate representing a certain fraction of a year's tuition at a university or college that is bought now is guaranteed to pay for that same fraction of a year's tuition at time of redemption.

STATE and INTEREST	STATUS	IMPLE-MENTA-TION	TYPE			IRS CONT?	DESCRIPTION or COMMENTS:
			SAVINGS	GUAR TUITION	OTHER		
ALABAMA (low)	no current interest						
ALASKA (high)	see "comments"		X			no	Legislative resolution that Alaska Student Loan Corp market a portion of its next bond issue as 0-coupon Alaska Student Savings Bonds in denominations affordable to small investors did not pass. The ASLC, however, will pursue the concept without a resolution. May develop & implement an educational & marketing program; may also study other ways of financing higher education. The Commission on Post-secondary Education will also be considering other programs & possibilities this fall.
ARIZONA (low)							Any interest would tend toward savings plans; however, the issue is not a high priority just now.
ARKANSAS (med-high)	being studied						Issue is being studied by the governor's task force and the legislature. Tending toward savings plans.
CALIFORNIA (high)	pending: SB 2833 (2 sections)		X			no	First section: Existing G.O. bonds to be sold as college savings bonds. Interest to be indexed to college costs. Risks to be borne by private financial institutions. Expect implementation 4-6 months after passage.
							++++++++++++++
				X		yes	Second section expresses legislature's intent to study a tuition guarantee plan. Requires reports by the California Postsecondary Education Commission & by the Dept of Finance in time for a bill to be introduced in Jan 89.
COLORADO (high)	SIGNED 4/88	1989	X			no	Colorado College Savings Bond Program, HB 1282. Zero-coupon bonds to be issued by the Colorado Postsecondary Education Facilities Authority. There is a possibility that incentives may be added later (perhaps offered by individual schools rather than by the state).
CONNECTICUT (high)	SIGNED 6/88	NLT 8/89	X			no	Family College Savings Plan, Public Act 88-299. G.O. bonds to be designated & sold as college savings bonds. An advisory committee is to study 10 issues before implementing (advertising, marketing, cost & availability of bonds, financial incentives, financial aid exemption, whether to limit the number of bonds per purchaser, payment methods, alternative financing of the bonds, estimated cost of this plan and administrative details) & report back by 1 Jan 89.
DELAWARE (low)							Study by the State Secretary of Finance recommends that there be no action at this time.

STATE and INTEREST	STATUS	IMPLE-MENTA-TION	TYPE			IRS CONT?	DESCRIPTION or COMMENTS:
			SAVINGS	GUAR TUITION	OTHER		
FLORIDA (high)	SIGNED 7/87	mid-SEPT 1988		X (includes dorm plan)		yes**	Florida Prepaid Postsecondary Education Expense Program (aka FL Postsecondary Cost Stabilization Fund). Includes 3 plans: 1) university plan (tuition); 2) community college plan (tuition); 3) dormitory residence plan. Pay by lump sum or over 10 years. Businesses & others may contribute to contracts for low-income students. Plans may be mixed (example: 2 yrs CC plus 2 yrs university & 1 yr dorm). Fees, supplies, meals, etc., not included. 1988 prices estimated to be $3,800 for a 4-yr old, $3,900 for a 10-yr old. Contracts transferable to siblings. Refunds on principal only, no interest. Contracts will be honored if family moves out-of-state; however, non-residents may not buy contracts. Principal & interest may be transferred to a FL private school; difference in tuition to be borne by purchaser. **IRS NOTES: State's position: Trust monies will be within the state treasury, therefore not taxable. However, there will be tax consequences at time of reimbursement. A state-specific IRS ruling will be requested. Contracts may be sold before a ruling is received.
GEORGIA (med)	being studied		X			no	Capital Appreciation Bonds for Educational Savings, HB 1613, is under consideration by the Study Subcommittee of the University System of Georgia.
HAWAII (low)	no activity at this time						
IDAHO (low)	no activity at this time						
ILLINOIS (high)	SIGNED 9/87	1/88	X			no	College Savings Bonds Program, Public Act 85-0939. $90 million in state G.O. bonds were sold between 11 and 13 Jan 1988 (demand was for approx $270 million). Prices ranged from $900 to $3,500. If proceeds are used in-state for public or private education, state will pay a bonus of .25% on the interest ($100 to $400 per bond). Next sale will occur in mid-October 1988.
INDIANA (high)	SIGNED 6/87	within the next 12 months, approx.		X	(1)	yes	Baccalaureate Education System Trust (BEST). Modelled after the Michigan program. No IRS ruling expected before the presidential elections. Working on administrative structure at this time. (1) Indiana University and other schools also considering tuition futures.
IOWA (high)	SIGNED 5/88		X			no	Iowa College Super Savings Plan authorizes State Board of Regents to issue up to $19 million in capital appreciation bonds, marketed for college savings. Also to implement an educational & marketing program to inform parents of options & to encourage early planning. 50% of bonds must be at $1,000 or lower, denominations.

STATE and INTEREST	STATUS	IMPLE-MENTA-TION	TYPE			IRS CONT?	DESCRIPTION or COMMENTS:
			SAVINGS	GUAR TUITION	OTHER		
KANSAS (med)	being studied						An interim committee is studying the issue this summer. A prepaid tuition bill was introduced but died.
KENTUCKY (high)	SIGNED 4/88	within the next 12 months, approx.	X			no	Kentucky Educational Savings Plan Trust Act, SB 38, establishes a public trust with 2 funds: a program fund for parental investments/savings; and an endowment fund for public funds, gifts, bequests, etc., to enhance the former if proceeds are used at KY state schools. Participants may also borrow from the trust for higher education costs.
LOUISIANA (med-high)	pending						A statute requiring the formation of a study committee is pending.
MAINE (high)	SIGNED 6/87	unknown		X		yes	Student Education Deposit Plan (SEED), H.P. 581-L.D. 779. Ruling requested from Maine Attorney General on whether or not to proceed in light of Michigan ruling, or to ask IRS for own ruling. (Status of request for IRS ruling must be made known before contracts may be sold).
							++++++++++++++++
	(SIGNED 4/88)	(7/88)			(X)	(no)	(Higher Education Loan Authority bill passed on 28 April 88. Bond issue of $35 million to finance supplemental educational loans (targeted to middle class). Loans probably to be 1% or so below prime; students may borrow up to $20,000/yr; interest payments begin upon graduation; up to 20 years to pay off.)
MARYLAND (low)							Tuition futures section of the Omnibus Higher Education Act did not pass.
MASSACHUSETTS (high)	pending		X	X		no	This is a combination savings bond & tuition certificate bill. G.O. bonds to be sold as college savings bonds & to be used as tuition certificates at participating colleges. Interest to be linked to projected college costs. Covers all academic costs, not just tuition. Bill would allow for reciprocal agreements with other states.

STATE and INTEREST	STATUS	IMPLE-MENTA-TION	TYPE			IRS CONT?	DESCRIPTION or COMMENTS:
			SAVINGS	GUAR TUITION	OTHER		
MICHIGAN (high)	SIGNED 12/86	8/88		X		yes	Michigan Baccalaureate Education System Trust (BEST), Public Act No. 316. Applications accepted in Aug 88, contracts entered into in Sept 88. S&Ls will take payments & arrange for loans if needed. Approx prices: $1689/1 yr's tuition for a newborn; $2055/1 yr's tuition for a 10-yr old. This was the first of the tuition guarantee programs to be passed, & serves as a model for the majority of others. Guarantee is good at the 15 state universities, 29 community colleges. Contracts also available for community colleges alone (at a lower rate) or combination cc/university. Refunds: Original investment minus admin costs only or original investment plus interest minus admin costs, depending upon nature of contract. A refund may also be paid directly to an independent degree-granting Mich institution, the amount to be not less than the prevailing weighted average tuition cost at a state institution for the number of credit hours covered by the contract on date of termination. **IRS NOTES: IRS ruling of 29 Mar 88: plan is tax-exempt to purchaser (altho there may be a minimal tax liability to the qualified beneficiary upon redemption of the contract). Mich Education Trust (MET) is tax liable at the corporate rate, but also benefits from corporate deductions, reducing net liability to an estimated 0-15%. MET has applied for tax exempt status based on the fact that it is a not-for-profit corporation.
MINNESOTA (high)	being considered		X			no	Approval (not legislation) needed from House & Senate Education Committees to designate bonds already on the market for educational purposes. May happen in late 88 or sometime in 89.
MISSISSIPPI (low)							May study issue next legislative session.
MISSOURI (high)	SIGNED 6/88	one year or more	X	X		yes	Both. Missouri Access to Higher Education Act (HB 1456), sections 1 thru 21 (tuition guarantee) and sections 360.015 thru 360.120 (savings bonds). IRS Notes: IRS ruling needed before contracts may be sold.
MONTANA (low)							No activity at this time.
NEBRASKA (low-med)	being studied						Interim study underway. Bill to establish a state college savings plan was introduced but did not pass.
NEVADA (high)**							**High interest but no activity at this time. The Board of Regents officially supports passage of a federal bond program; meantime Nevada will continue to monitor events in other states. May also develop a state savings program if federal programs are not forthcoming.

STATE and INTEREST	STATUS	IMPLE-MENTA-TION	TYPE			IRS CONT?	DESCRIPTION or COMMENTS:
			SAVINGS	GUAR TUITION	OTHER		
NEW HAMPSHIRE (med)	being studied			X		yes	A tuition guarantee bill will be in interim study until September 88.
NEW JERSEY (high)	re-introduced			X		yes	Re-introduced: New Jersey Advance College Tuition Program Act of 1988, SB 1513. Approved by the Education Committee, being considered by the Senate Revenue, Finance & Appropriations Committee. Purchase certificates worth a particular percentage of tuition at a specific institution now, will be worth the same percentage at time of redemption. Independent schools may elect to participate.
NEW MEXICO (low-med)							The issue is being discussed by the Commission of Higher Education. May be addressed in the Five-Year Plan due out in Sept 88.
NEW YORK (med)	being studied		X				Savings programs being considered. Regents savings plan was proposed but not introduced. TAP and Liberty Scholarship programs are tabled for now. Current interest is focussed mainly on existing financial aid & scholarship programs. Interest in any kind of tuition program revolves mainly around savings plans.
NORTH CAROLINA (high)	SIGNED 7/87	Fall 1987	X			no	College Savings Bond Plan authorized sale of tax-free revenue bonds in denominations small enough to help parents save for their children's college educations. Bonds are marketed as an ideal vehicle for educational savings. Approx $30 million sold since start. This plan is very similar to that of Illinois.
NORTH DAKOTA (high)	SIGNED 4/88	6/88	X			no	Orders for approx $15 million in savings bonds were taken from 20 to 24 June 88. Zero-coupon, maturity value of $5,000, sold at $200 to $400...Legislation was not needed, so "Policy Resolution (Educational Bonds for Savings Program) by the Industrial Commission of North Dakota" was passed. Commission may already sell bonds; this resolution authorized the Commission to market a certain portion of these bonds as educational savings bonds. Unless legally or otherwise disallowed, bonds may be redeemed for tuition certificates (not guarantees), payable at eligible ND institutions for tuition, fees, room & board within 3 years of maturity. Bonds must be used for tuition; however, in the event the qualified beneficiary cannot or does not wish to attend postsecondary education, they may be sold to other parties.
OHIO (med-high)	pending		X			no	If there is not enough time to pass the Savings Bond Program bill before the end of this session, it may very well be re-introduced next year.
OKLAHOMA (high)	SIGNED 7/88	unknown		X		yes	OK Tuition Trust Act, HB 2010, creates a prepaid tuition trust by either 6/90 or upon favorable IRS ruling, whichever occurs last. Modelled after Michigan plan.

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			SAVINGS	GUAR TUITION	OTHER		
OREGON (low)							Oregon Baccalaureate Education System Trust bill (tuition guarantee) died in committee in 1987. No further action expected at this time.
PENNSYLVANIA (high)	being considered			X		yes	Tuition Credit Purchase Plan (with amendments) is being considered. The Commonwealth will bear the risk for state-owned & state-related schools & for community colleges. Independent schools (voluntary participation) assume their own risk, but may draw from a reserve account in case of shortfall (but are responsible for the balance if funds are insufficient).
PUERTO RICO (low)	no activity at this time						
RHODE ISLAND (high)	SIGNED 6/88	late 88 to mid 89	X			no	College Savings Plan of Rhode Island (3 bills) provides for tax-free bonds ($1,000 face value) & state-tax-free educational savings accounts. Up to k$25,000 in savings are exempt from financial aid considerations. Also, state tuition grant monies are to be doubled by 1993.
SOUTH CAROLINA (medium)	see "comments"				"IRA" type	yes	The Child's Education Savings Act did not pass this session, but may be re-introduced January 1989. $3,000 tax-free per year per taxpayer may be set aside for education. Monies will be disbursed to school for tuition & room; also up to $600 per year may be used for books & fees upon approval of trustee.
SOUTH DAKOTA (low)	no activity at this time						
TENNESSEE (high)	SIGNED 5/87	1989		X		yes	Tennessee Baccalaureate Education System Trust Act, Public Chapter 281, (tuition futures plan). Working on who bears the financial risk. Other issue: The state will request a state-specific IRS ruling, and may sell contracts after the ruling is received, even if it is less than favorable.
TEXAS (low)	being studied						Texas is studying the issue; may have a proposal for the next legislative session in 1989.
UTAH (low)							A tuition guarantee bill was defeated in February 88. State is willing to consider other proposals, but is mostly interest in watching federal developments.
VERMONT (medium)							Interested but awaiting outcome of possible federal legislation. No proposals will be submitted to state's legislature until such time. If federal legislation doesn't pass, state may consider its own legislation.

STATE and INTEREST	STATUS	IMPLE-MENTA-TION	TYPE			IRS CONT?	DESCRIPTION or COMMENTS:
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VIRGINIA (high)	PASSED 4/88	8 to 10 months	X			no	Virginia Tuition Savings Program (a unit investment trust). One or several funds will be established from which financial institutions can purchase shares for their clients at the local level (families). Shares might sell as low as $200.
WASHINGTON (high)	PASSED 2/88	Fall 1988	X			no	College Savings Bond Act of 1988, modeled after the Illinois plan. Similar in most respects except that neither financial aid exemptions nor special financial incentives are planned. $50 million issue is planned for fall 1988.
WEST VIRGINIA (medium)	pending			X		yes	West Virginia Education Trust Act, SB 131, was introduced in Jan 88. A previous bill, SB 91, a tuition guarantee plan that included provisions provisions for a scholarship fund, was not passed.
WISCONSIN (med-high)	being studied						Issue being studied by U of WI; a report is expected out by Nov 88. Certain members of legislature would like to see a savings bond bill intro'd next session, which would authorize double-exempt state G.O. bonds to be used for college savings & which would include some sort of financial incentive...There are also some private bond issues that are being sold in WI in small denominations & are targeted toward people with college fund investment needs.
WYOMING (high)	PASSED 2/87	8/87		X incl. room & board		no	Advance Payment of Higher Education Costs, Enrolled Act No. 9, provides for advance payment of resident & non-resident tuition; also for room & board. Cost for a contract maturing in 2004 estimated to be $6,393 (for 4 years) as of 1 Aug 88.